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August 2, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
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From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

State Budget

Although Governor Schwarzenegger offered to use his line-item veto power to reduce State spending in an attempt to end the month-old budget stalemate, the Senate met last night and failed to approve the FY 2007-08 State Budget by a vote of 26 to 14, (twenty-seven votes were needed for passage). After the meeting, Senate pro Tem Perata allowed members to go back to their districts and indicated that it is unlikely that the Senate will reconvene before the Assembly returns from its summer recess, which means that the State Budget could be put on hold until at least August 20, 2007.

Also, this morning, the Governor held a press conference and expressed his disappointment that the Senate could not reach a deal, and urged them to continue working on the budget to avoid disruption of State operations and further delays in payments to local governments, community colleges, special education programs, nursing homes, and others that do business with the State.

According to our Sacramento advocates, the main points of contention preventing a budget deal continue to be the Senate Republicans' demand to cut spending by at least \$700 million to reduce the operating budget deficit to zero, and their request for changes in law to prevent the Attorney General from filing lawsuits against local governments for failing to address the effects of greenhouse gas emissions in their general plans and California Environmental Quality Act reviews.

Impact on the County

Based on our review of the Assembly-passed Budget, we estimate the impact on the County will increase from a projected loss of \$24.3 million from actions included in the Conference Committee Budget to an estimated loss of \$33.2 million. As reported in our July 23, 2007 Sacramento update the difference is primarily attributable to the loss of \$5.0 million in Proposition 36 funding, \$4.2 million from the approval of an adjustment in foster care provider rates, and is partially offset by the restoration of funding for the Mentally Ill Offender Crime Reduction Program. The overall impact on the County by program is reflected in the attached chart.

Budget Trailer Bills

In addition to the Assembly passage of SB 77, the Budget Bill, on July 20, 2007, the Assembly also passed 16 Trailer Bills necessary to implement portions of the Budget that cannot be accomplished without a change in statutory law. We have now reviewed the Trailer Bill language and have identified the following issues of interest to the County.

SB 78 - Conference Committee Report Amendments

Mentally Ill Offender Crime Reduction (MIOCR) Program. Restores \$29.7 million for the MIOCR Program to implement multi-agency services aimed at curbing recidivism for juvenile and adult mentally ill offenders. The grant funding is available to county sheriff and probation departments to serve juvenile and adult offenders. The MIOCR funds are allocated to fully fund the FY 2006-07 grants which are available for expenditure until September 30, 2008. While the County received an estimated \$3.4 million in the last fiscal year, the potential allocation for FY 2007-08 is unknown because the grant funds will be awarded on a competitive basis.

Proposition 36. Reduces funding for Proposition 36, the Substance Abuse and Crime Prevention Act of 2000, by \$20 million to \$100 million Statewide, and the Offender Treatment Program by \$5.0 million to \$20 million in comparison to the FY 2006-07 allocations. The OTP Program funds are awarded on a competitive basis and require a 10 percent local match. This action would result in a \$5.0 million loss to the County.

SB 79 - Transportation Trailer Bill

Gasoline Tax "Spillover" Revenues. Redirects the Spillover revenues (the amount of a 4.75 percent State Sales Tax on all items including gasoline in excess of a 5.0 percent State Sales Tax on all taxable items except gasoline) to pay State General Fund transportation obligations. This action would impact projects Statewide.

SB 79 also proposes to direct the Spillover on an ongoing basis to the General Fund. Beginning in FY 2008-09, one-half of the Spillover will be used to pay various General Fund

expenditures. The remaining Spillover will be divided 67 percent for local operations and 33 percent for the State Public Transit Account (PTA). The Department of Public Works advises that any reduction of PTA funding could translate into a decrease of revenue available for Metropolitan Transit Authority (MTA) programs such as the Call for Projects which provides the County and other local jurisdictions, transit operators, and other public agencies the ability to submit project applications for funding.

SB 81 - Corrections Trailer Bill

California Adult Probation Accountability and Rehabilitation Act. Provides \$10 million in one-time grants for two large urban counties to target at-risk probationers between 18 and 25 years of age with gang affiliations for the purpose of reducing recidivism. Alameda County is designated as one of the recipients. The State will design the grant program and will award funds to the two county probation departments. The grantees will be responsible for submitting a report and evaluation of the grant program to the State.

Juvenile Justice Realignment. Includes funding to counties for the retention of non-707(b) juvenile offenders (non-violent, lower level offenders) who previously had been sent to State juvenile facilities. Counties also would retain parole violators found to have committed a non-707(b) offense regardless of the underlying offense. The amount of \$117,000 would be appropriated for each offender retained by the counties that previously would have been detained in a State operated juvenile facility. Additional savings would accrue to counties resulting from elimination of the sliding scale payment to the State for those offenders. Funding of \$15,000 would be appropriated for each parole violator retained by the County who would otherwise have been sent to a State juvenile facility. Actual funding allocations to counties will be determined by a formula administered by the Department of Finance.

SB 81 also provides \$14.9 million in grants to develop programs for juvenile offenders. These funds will be allocated in part on formula and in part on competitive criteria. The first Statewide grant of \$4.9 million will be allocated to counties for pre-planning purposes. Under this grant, all counties will receive some funding. The ten largest counties, including Los Angeles County will receive \$150,000 each, the next 20 largest counties will receive grants of \$100,000 each and the remaining 28 counties will receive grants of \$50,000 each. In addition, a second grant of \$10 million will be available to counties for the development of services and programs for special needs offenders. Funds from this grant will be awarded on a competitive basis to address the needs of offenders with a history of mental health, substance abuse, violence or other recurring behavioral problems.

Counties also will be required to develop an annual plan for addressing their juvenile offenders. This plan will be reviewed and approved by the State. Failure to secure a State approved plan would place the block grant of \$117,000 for detained juveniles and \$15,000 for probationers at risk. Should a county no longer qualify for these grants, there are no provisions for it to return non-707(b) offenders to the State.

SB 81 would amend the membership of the State Commission on Juvenile Justice (Commission) from 11 to 12 members to provide oversight and planning over the activities of state and local agencies to prevent and respond to juvenile crime. At this time, it is not clear what impact the Commission's findings will have on local juvenile justice operations.

Juvenile Facility Construction Bonds. Authorizes the issuance of \$100 million in lease revenue bonds for the construction of new juvenile facilities at the local level. Participation in this program would be subject to a local county match. The criteria for the allocation of these bonds have not been determined.

SB 83 – Health Trailer Bill

Federal Bioterrorism Funds Extension. Extends the sunset regarding the use of Federal bioterrorism funds at the State and local levels by three years, from September 1, 2007 to September 1, 2010, and provides additional language for all cost compliance reports and audit exceptions to be provided to the Legislature upon request. This will not affect the County because the County receives Federal bioterrorism funding directly.

Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program. Adopts language for the State Department of Mental Health to work collaboratively with the Legislature to develop an appropriate administrative structure for the EPSDT Program in FY 2008-09, including the passage of legislation to implement these changes in law. The Budget addresses the current and prior year deficiencies in the EPSDT Program caused by administrative and accounting errors by approving a total increase of \$59.7 million to fund the FY 2006-07 deficiency, a total increase of \$107.9 million to fund FY 2007-08, and establishes prior year reimbursement to counties of \$260.2 million with payments of \$86.7 million annually over a three-year period. It is estimated that the County will receive \$127 million over the three-year period for FYs 2003-04, 2004-05, and 2005-06.

SB 84 - Human Services Trailer Bill

Foster Care Payments. Provides a 5.0 percent rate increase for foster homes and group home providers effective January 1, 2008. The rate increase is intended to improve the quality of care, provide staff retention, and maintain availability of services for children in foster care. The budget appropriates \$9.7 million for this purpose. As previously reported, an increase in the foster care provider rates would significantly impact Los Angeles County. Under the County's Title IV-E waiver, Federal and State funds for child welfare administration and assistance costs are capped. The rate increase would result in an estimated net County cost increase of approximately \$41.5 million for Title IV-E Waiver programs and \$5.1 million for non-Waiver programs over the five-year waiver period.

Dual Agency Rates. Establishes a single dual agency rate of \$2,006 per month for foster care and adopted children over 3 years of age who are also served by the State's Regional Centers due to a developmental disability. The dual agency rate is intended to promote equity in rates paid to caregivers and ensure that children receive necessary services

through the foster care system and Regional Centers. Counties would have the option to increase payments by up to \$1,000 per month if the child has the need for extraordinary care and supervision that cannot be met using the single dual agency rate. Caregivers of children 0 to 3 years of age will receive \$898 per month. Since the County currently pays less than \$2,006 per month for foster care children, it is estimated that the dual agency rate increase, including the supplemental rate, could result in an annualized net County cost of approximately \$4.2 million.

Transitional Housing Program-Plus (THP-Plus). Appropriates \$35.6 million for the Transitional Housing Plus Program which provides affordable housing and comprehensive support services to former foster youth between 18 to 24 years of age. This is \$10 million less than the amount approved by the Budget Conference Committee which re-opened the THP-Plus budget item to appropriate \$10.5 million to cover costs incurred in FY 2006-07. However, the Trailer Bill provides that up to \$10.5 million of the appropriation may be used for program costs incurred in FY 2006-07. The County would receive approximately \$2.6 million which would fund 100 THP-Plus beds.

Child Care Fraud. Requires the California Department of Education to conduct a study and submit a report to the Legislature by September 2008 to establish Statewide best practices for the prevention, detection, identification and investigation of improper payments and fraud in all subsidized child care programs.

SB 86 - General Government Trailer Bill

Housing Bond Expenditures. Provides allocations and some criteria for various housing-related programs in the Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C) including: 1) \$240 million for the Infill Incentive Grant Program of 2007. The State Department of Housing and Community Development (SDHCD) would be required to establish and administer a competitive grant program for capital improvement projects that promote the development of a qualifying infill development project or infill area, and 2) \$60 million for brownfield cleanup up that promotes infill residential and mixed-use development, consistent with regional and local land use plans. The California Pollution Control Financing Authority, in consultation with SDHCD, will administer grants and loans under the California Recycle Underutilized Sites (CALReUse) program.

SB 88 – Proposition 1B Trailer Bill

Local Streets and Roads. Increases the allocation to cities and counties by \$350 million. This would bring the total appropriation for the Local Streets and Roads account to \$950 million. SB 88 does not specifically address how the \$950 million would be split between cities and counties; however, according to the California State Association of Counties, counties would receive \$400 million and cities \$550 million in FY 2007-08. DPW estimates that the \$400 million for counties would result in an increased allocation to the County from approximately \$58.2 million to \$76 million SB 88 also outlines accountability and State oversight provisions regarding submission of approved projects,

State Department of Finance reports to the State Controller, and expenditure requirements within three years of receipt of the funds.

Highway Safety, Rehabilitation and Preservation. Provides that \$150 million of the \$250 million set aside in Proposition 1B for Traffic Light Synchronization Projects be allocated to the City of Los Angeles, leaving only \$100 million for other Statewide projects. The allocation for the County is unknown at this time because the grant funds will be awarded on a competitive basis.

Transit System Safety, Security and Disaster Response. Establishes procedures for allocating \$1.0 billion in funds for the Transit System Safety, Security and Disaster Response program. Funds are available for capital projects that provide increased protection against a security and safety threat, and for capital expenditures to increase the capacity of transit operators to develop disaster response transportation systems that can move people, goods, and emergency personnel and equipment in the aftermath of a disaster impairing the mobility of people, goods, and equipment.

SB 88 distributes funds to the following three program categories:

- 60 percent for capital expenditures to transportation agencies and transit operators eligible to receive State Transit Assistance (STA) funds pursuant to the Public Utilities Code. Eligible capital expenditures include: 1) projects that provide increased protection against a security or safety threat, including interoperable communications equipment, physical security enhancement equipment and other security-related projects approved by the Office of Homeland Security, and 2) projects to increase the capacity of transit operators to develop disaster response transportation systems;
- 25 percent to regional public waterborne transportation agencies authorized to operate a regional public waterborne transportation system and not otherwise eligible to receive STA funds. Eligible capital expenditures include the acquisition of new vessels, the improvement or construction of docks and terminals and the construction of fueling facilities;
- 15 percent to operators of intercity passenger rail systems and commuter rail systems specified in the Public Utilities Code. Eligible capital expenditures include: 1) projects that provide increased protection against a security or safety threat, including interoperable communications equipment, physical security enhancement equipment and other security-related projects approved by the Office of Homeland Security, and 2) projects to increase the capacity of transit operators to develop disaster response transportation systems.

The MTA is eligible to receive STA funds. According to the MTA, the County is not an eligible recipient of STA funds and therefore is not able to apply for the fund. The Sheriff's Department identified these funds as an opportunity to implement security and disaster response for local transit systems, including funding for additional cameras and global

positioning devices for MTA rail and bus lines. At this time, it is unknown if any of the program funds could be made available to the County from the MTA as a "pass-through agency." The MTA indicates that the Sheriff would still benefit from the new security infrastructure funded by Proposition 1B.

SB 98 - Economic Stimulus Trailer Bill

Senate Bill 98 provides a tax credit for costs associated with motion picture and new television production in the State. The implementation of this credit would require the California Film Commission and the State Franchise Tax Board to annually report to the Legislature on the diversity of the workforce employed by entities receiving this tax credit. It would also require the Business, Transportation and Housing Agency to report to the Legislature regarding the economic impact of the tax incentive. Credits of up to \$70 million would be authorized. In addition, SB 98 provides a gross receipts tax exemption for low sulfur fuel used by water and air common carriers in California.

Other Budget Issues of Interest to the County

Integrated Services for Homeless Adults with Serious Mental Illness Program. The Budget restores \$54.9 million in funding for the AB 2034 program which provides comprehensive services to individuals who are homeless or at risk of homelessness and have a serious mental illness. This action restores \$17.0 million for the County's AB 2034 Program.

2008 Presidential Primary Election. SB 113 (Chapter 2, Statutes of 2007), requires the 2008 Presidential primary election to be moved from June 2008 to February 2008. While the Governor's Budget proposes an increase of \$11.7 million for the Secretary of State to conduct the election, it does not include funding to reimburse counties. The May Revision did include language expressing the Administration's intent to reimburse counties in FY 2008-09, however, counties will have to fund election costs FY 2007-08 by using county resources. It is estimated that the cost for the County to conduct the election would be approximately \$20 million.

Property Tax Administration Program. As part of the 2005 Budget Act, the State suspended the Property Tax Administration Program (PTAP) for two years with the expectation that the program would be reinstated in FY 2007-08. The Assembly Budget does not restore funding for county property tax administration. The County's annual share of the program was \$13.5 million.

Adult Protective Services (APS) Program. The Budget provides a \$12 million augmentation for the APS Program to address the increased demand for services to assist elderly and dependent adults who are victims of abuse and neglect. The augmentation would provide an additional \$3.1 million for the County's APS Program.

County Equipment Replacement. The Budget provides \$9.2 million to replace computer hardware for automated welfare systems including the LEADER system and the Child Welfare Services/Case Management System (CWS/CMS), which contains a comprehensive database, case management, and reporting system for child welfare and foster care programs, and other social services automation systems across the State. The County would receive approximately \$2.8 million for LEADER, and about \$2.5 million will be available statewide for CWS/CMS.

Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting System (LEADER) Replacement. The Budget provides \$2.0 million in additional funds for planning activities to replace Los Angeles County's automated LEADER system which is used to determine eligibility for the CalWORKs, Medi-Cal, Food Stamp, and General Relief programs.

Cost of Doing Business. The Budget eliminates the Conference Committee's action to include Trailer Bill Language in FY 2007-08 to restore the process of budgeting Cost of Doing Business adjustments, based on reasonable costs, to reimburse counties for the administration of various State mandated programs starting in FY 2008-09.

Since June 2001, the State has not granted cost of doing business adjustments to counties for the administration of various mandated human services including: APS, Adoptions, CalWORKs, Child Welfare Services, Food Stamps Administration, Foster Care Eligibility, and In-Home Supportive Services. As a result, increased costs for salaries, health benefits, workers compensation, leases, utilities, and other related costs have been shifted to counties.

A survey prepared by the California State Association of Counties, California Welfare Directors Association, and the Urban Counties Caucus estimated that the State's failure to fund cost of doing business adjustments for the past six years has shifted an estimated \$793 million per year to counties. Based on this estimate, the impact on the County for these unavoidable cost increases is about \$238 million. In addition, the Governor's May Revision released the results of a county survey, as required by AB 1808 (Chapter 75, Statutes of 2006), to estimate the actual costs incurred by counties for administering human services programs which determined that the State has not funded an estimated \$835.8 million annually.

Health Care Workforce Development Program. The Budget retains the Governor's Budget proposal to make the final \$5.7 million installment of State funds to the County to complete the State's training commitment for healthcare employees. This commitment was made in 2000 as part of the County's Section 1115 Medicaid waiver.

HIV Surveillance. The Budget provides \$2.0 million for additional local assistance to increase surveillance staff needed to implement HIV name-based reporting activities per County-sponsored SB 699 (Soto), Chapter 20 of 2006. HIV surveillance systems are used to track the incidence and prevalence of HIV infection which is reported to the Federal

Centers on Disease Control and Prevention, and will be used as the basis for allocation of Ryan White Care Act Funding. It is likely that the County will receive an additional \$710,000 for our surveillance program.

Mental Health Managed Care Rate. The Budget eliminates the 5.0 percent rate restoration for county Mental Health Plans contained in the Budget Conference Report. The County's mental health managed care program administers the Medi-Cal Fee-For-Service (FFS) Consolidation Program for acute inpatient, professional and outpatient specialty mental health services in Los Angeles County. The Medi-Cal FFS Consolidation Program ensures compliance with State and Federal requirements for Medicare and Medicaid service documentation; authorizes State reimbursement for Medi-Cal FFS acute inpatient services; administers credentialing of Medi-Cal professional service providers; and authorizes reimbursement for service claims for Medi-Cal FFS professional and outpatient mental health services. We are working to determine the potential impact on the County.

California State Library. The Budget includes a \$1.0 million augmentation to the Public Library Foundation (PLF) Program. The Library Department would receive approximately \$100,000 of the augmented funds. These funds are used to improve direct library services. The County Librarian indicates that the augmentation to the PLF Program would benefit County libraries by providing for the acquisition of books and educational materials that otherwise could not be purchased due to the shortage of funds.

High-Risk Pest Exclusion. The Budget augments by \$2.2 million funding for High-Risk Pest Exclusion (HRPE) activities performed by local Agriculture Commissioners and Statewide border stations. The County's Department of Agricultural Commissioner/Weights and Measures would receive approximately \$600,000 of the augmented funds. The HRPE program is a crucial program in protecting the State's \$32 billion agricultural industry because invasive pests from around the world and across the country pose a significant threat to the more than 350 crops raised by California growers.

Department of Veterans Affairs. The Budget provides \$621,000 to support start-up costs associated with the opening of the Greater Los Angeles/Ventura Counties Veterans home. The amount provided would be used for services to veterans in the Los Angeles County area.

We will continue to keep you advised.

WTF:SRH:GK
MAL:MR:IGA:acn

Attachment

c: All Department Heads
Legislative Strategist
Local 721

**ESTIMATED IMPACT TO LOS ANGELES COUNTY
FROM THE GOVERNOR'S FY 2007-08 PROPOSED BUDGET**

(In Millions)

<u>Reductions / Unfunded Programs :</u>	January Budget	May Revision	Conference Committee	Assembly Budget
Integrated Svs. for Homeless Adults with Serious Mental Illness	(17.0)	(17.0)	0.0	0.0
Substance Abuse Crime Prevention Act Program (Proposition 36)	(7.0)	(7.0)	3.8	(5.0)
February 2008 Presidential Primary Election	(20.0)	(20.0)	(20.0)	(20.0)
Property Tax Administration Program	(13.5)	(13.5)	(13.5)	(13.5)
Mentally Ill Offender Crime Reduction (MIOCR) Program	0.0	0.0	(3.4)	?
Williamson Act Program Reduction	0.0	(0.04)	(0.04)	0.0
Sub-Total	\$ (57.5)	\$ (57.5)	\$ (33.1)	\$ (38.5)
<u>Unavoidable Costs :</u>				
State-approved Foster Care Provider Rate Increase	0.0	0.0	(5.2)	(5.2)
State-approved Dual Agency Provider Rate Increase	0.0	0.0	0.0	(4.2)
Sub-Total	0.0	0.0	(5.2)	(9.4)
<u>Augmentations / Restorations :</u>				
Health Care Workforce Development	5.7	5.7	5.7	5.7
California Adult Probation Accountability & Rehabilitation Act	13.8	6.9	?	?
LEADER System Replacement	2.0	2.0	2.0	2.0
Transfer of Juvenile Justice Population to Counties	?	?	?	?
Adult Protective Services (APS) Program Augmentation	0.0	0.0	3.1	3.1
High Risk Pest Exclusion (HRPE) Program Augmentation	0.0	0.0	0.5	0.6
Public Library Fund Augmentation	0.0	0.0	0.1	0.1
Transitional Housing Plus (THP) Program Augmentation	0.0	0.0	2.6	2.6
HIV Surveillance Local Assistance Fund Augmentation	0.0	0.0	0.0	0.6
Sub-Total	\$ 21.5	\$ 14.6	\$ 14.0	\$ 14.7
Estimated Net Impact	\$ (36.0)	\$ (42.9)	\$ (24.3)	\$ (33.2)

Notes:

- (1) Reflects full restoration of the \$54.9 million Statewide for the AB 2034 Program. No negative impact to the County.
- (2) Reflects impact from the \$20M Statewide reduction to the Proposition 36 Program, and \$5M reduction to the Offender Treatment Program from FY 2006-07.
- (3) Reflects the estimated cost for the County to conduct the February 2008 Presidential Primary Election. While the May Revision indicated the Administration's intent to provide reimbursement in FY 2008-09, the County will have to fund the election in FY 2007-08.
- (4) PTAP was suspended as part of the 2005 Budget Act with the understanding that it would be reinstated in FY 2007-08. The program was not restored.
- (5) Restores \$29.7 million for the MIOCR Grant Program in FY 2007-08. Impact to the County is not known, as grant funds are awarded on a competitive basis.
- (6) Reflects full restoration of the Williamson Act which provides subsidies to counties.
- (7) Estimate reflects a 6-month impact on the County as new rates will be effective 1/1/08. Annualized impact is \$10.4 million. The Assembly-passed Budget approved a 5% rate increase for foster and group homes (foster family agencies were excluded). Under the Title IV-E Waiver, the County is responsible for covering the cost of the County and Federal portions of the rate increase.
- (8) Estimate reflects impact based on new rates as of 7/1/08. Potential impact includes supplemental rate increases which are at County discretion.
- (9) Assembly Budget includes \$10 million for a 2-county pilot program. Alameda County has been identified as a pilot, and it is not known if Los Angeles will be the other.
- (10) SB 81 addresses the statutory changes for the implementation of the Juvenile Justice Realignment. The fiscal impact on the County is not known at this time.
- (11) Reflects additional funds for the County from the approval of a \$12 million funding augmentation for the APS Program.
- (12) Reflects additional funds for the County from the approval of a proposal to augment the HRPE Program by \$1.5 million and \$700,000 for border inspections.
- (13) Reflects additional funds for the County from the approval of a \$1.0 million Statewide augmentation for the Public Library Fund.
- (14) Reflects funding for 100 bed slots approved for the County's Transitional Housing Plus Program.

This table represents the estimated loss/gain of State funds based upon the Governor's Proposed Budget, May Revision, Conference Committee proposals and the Assembly-passed Budget. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.